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Combining for Foreign Trade

Guaranty Trust Company
of New York

Combining for Foreign Trade

Plans and Methods of Operation

Guaranty Trust Company of New York

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Foreword

THE information contained in this booklet has been recorded as the result of actual experience in aiding the formation of combinations under the Webb-Pomerene Law. It is presented with the idea that specific data and detailed information, together with a discussion of plans of organization, based on actual developments, may be helpful to those who are seeking a solution of some of the more difficult problems of collective selling.

Legal opinion is not agreed as to the alleged limitations of the Webb Law. Business men, however, have been proceeding on the understanding that whatever restrictions are discovered as hindering the legitimate development of foreign trade will be removed by Congress as experience proves the necessity for amendment of the Law. The Government desires to foster our foreign trade activities in every way possible, and when privileges are not abused, and existing domestic laws are not wilfully violated, very definite encouragement is likely to be granted to groups of exporters who seek to establish our products in all parts of the world on a plane compatible with the highest standards of American business.

The services of the Guaranty Trust Company of New York frequently have been employed in this field in counselling the members of new foreign trade organizations, and have been and are entirely gratuitous. No obligation of any kind is involved. It is a matter of public service, rendered in the belief that whatever serves to expand the country's trade will, in the long run, be of benefit to all and help sustain the national prosperity.

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Combining for Foreign Trade

Plans and Methods of Operation

THE Webb-Pomerene Law, permitting combinations in export trade, has now been in force for more than twelve months. During this period one hundred and one organizations have filed papers with the Federal Trade Commission for the purpose of taking advantage of the provisions of the Law.

Not all of these organizations have complied with the essential requirements of the law. Some trading agencies have registered with the idea that it might be safest so to do as an aid to contemplated expansion of effort, without, in the mean time, representing any organization of competing interests.

There is, however, a rapidly-growing number of well-planned organizations in which American manufacturers and producers have combined to promote their sales in foreign countries. These include five different groups of lumber producers, groups representing steel, copper, packing, textiles, paper, cement, chemicals, phosphate, magnesia, tanning, office equipment, wooden ware, webbing, sash, door, and millwork supplies, foundry equipment, etc. Combinations in coal, electrical supplies, hosiery, builders' hardware, packing (additional groups), furniture, steel specialties, musical instruments, railroad supplies, machine tools, stoves, machinery, carpets and rugs, paints, tanning, converters, and other industries are under way.

Questions of Adaptation

Leading manufacturers in numerous competing industries, and from all parts of the country, desiring to act jointly and to take advantage of the provision of the Webb-Pomerene Law, have approached the task by appointing a committee to study the subject of "coöperative effort in foreign trade," and to draft a plan for the approval of all concerned. Frequently this has been done through the trade association in which the majority of manufacturers in the industry are represented. Often the chairmen of such committees have written to the Guaranty Trust Company of New York, asking for guidance and suggesting that we send copies of agreements of combinations already formed, or outline the basis upon which other groups of manufacturers have gotten together.

We have however not found it practicable to serve anyone in precisely this way. There is no "rule of three" by which any selling organization for export trade can be put together. The fundamentals may be, indeed, are, the same in regard to many of the commercial factors to be considered, but the technique of organization is largely contingent upon conditions which are peculiar to each industry. The details are important; and no group of would-be exporters faces exactly the same problems when all the items relating to the nature of the product, domestic methods of production, sale and distribution, number of probable participants in the combine and the individual experience—or non-experience—in export trade, are taken into consideration. The domestic problems of each industry have to be analyzed first, and the conditions of manufacture studied.

Different Types of Selling Organizations

There are three types of selling organizations which, with variations to meet

the conditions peculiar to each industry—not to mention the temperament and vision of the personnel involved—may be said to cover the needs of manufacturing groups of competitors seeking to combine under the Webb-Pomerene Law. Non-competitors do not need to register with the Trade Commission their intent to take advantage of the provisions of the new law, though many non-competitive groups, represented by the commission houses or manufacturers' agents with offices at the seaboard, have done so as a precautionary measure.

The Ideal Form

In every new industrial effort, particularly of the coöperative order, the ideal needs must give way to the practical, in some measure, but there seems to be no reason why American manufacturers, with the world before them and with government recognition of the need for assisting every legitimate kind of foreign-trade expansion, should not organize upon the most efficient basis. Thus far there has been only one apparent handicap, namely, a tendency on the part of certain competitors in the several groups to insist that every important manufacturer be included in the combine. This has made for delay, and not infrequently the best results have been sacrificed in the interests of expediency where basic principles should have prevailed. They have lost sight of this fundamental in foreign trade, that efficient measures for successfully meeting competition abroad are much more important than small differences of opinions at home. When an export company, no matter how powerful its individual units, goes into the markets of the world to compete for business against merchants whose experience in all phases of foreign trade is longer and wider, it needs every possible equipment and advantage to succeed. It cannot afford to be handicapped by minor considerations in respect to internal organization.

The ideal selling organization, which we will call No. 1, is made up of a group of competitors all making or producing about the same type of product, who create their own export company by contributing funds for working capital by the purchase of stock, such capital being used for the establishment of offices and staff at seaboard in the United States, for the expenses of travelling representatives, offices, warehouses and possibly showrooms abroad, publicity and general pronotive effort. It is assumed, for the sake of this illustration, that we are dealing with a major industry and a staple product, such as lumber, coal, copper, or cement, and with a group of producers who have reasons for going into the venture on a large scale.

First, what should be the capital of this export company? That depends upon the nature of the product, the potential demand abroad (whether the market be permanent and universal or confined to a few countries), to what extent the participants wish to spread the initial effort, and upon the size of the foreign organization necessary to cope with the business that may be expected at the end of a reasonable, pioneering period. It is obvious that the capital of the company can be increased whenever the volume of business demands. A general tendency has been noted to limit the initial capital to moderate figures, and to depend upon modern methods of foreign banking as the means of financing the project, thus avoiding the necessity of tying up a large amount of money. When the amount of capital has been agreed upon, it is simply called for as required for working expenses; it is not necessarily all provided at once.

There are three main points for common agreement:

1. The basis of contribution to the working capital of the company, by purchase of stock.
2. The allocation of orders.
3. An equitable provision for those already having established connections abroad.

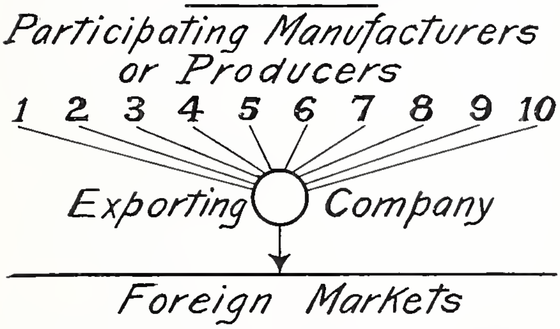
Retention of Trademarks

A recurrent demand among manufacturers of standing who seek to coöperate for foreign trade is that the identity of their product shall be preserved, regardless of collective selling arrangements. This means that they wish to avoid the chance of losing any of the goodwill already established by the previous sale—through whatever channels—of their merchandise in foreign markets. They insist upon this provision, at least during what they regard as the experimental period of the coöperative effort.

This is neither unnatural nor illogical, though in many cases this factor has been over-emphasized. In the markets of the world, with thousands of international competitors who pioneered the foreign fields long before American industry became important, substantial goodwill for the American product is confined to comparatively a few names. But since it is a point upon which most well-established manufacturers in every group are insistent, provision has been made for it, and it has been necessary to formulate plans on that basis. This has been done, and it can be done in practically every line of business by the adoption of a dominating trademark governing the output of the combination, with subsidiary trademarks plainly indicating the source of mill production or individual trade name.

The composition of the ideal combination, which we have called No. 1, may best be visualized, perhaps, by the accompanying diagram, which assumes (for the sake of brevity and space) the number of participants to be ten. As a matter of fact, there are sixty or seventy corporations in some of the combinations already formed, and in one potential group there is a possibility that several hundred manufacturers may be represented.

WEBB COMBINATION NO. 1



The above diagram vizualizes a combination of competitors manufacturing the same kind of product. The members, that is, the participating manufacturers, subscribe to stock—to furnish working capital—on some proportionate basis, say, that of relative production capacity. All sales are made and cleared through the Export Company, managed by executives experienced in export trade. Orders procured through the Export Company are distributed to the members in the order of the relative amount of the investment, each member having his contract with the Company and guaranteeing a minimum percentage of product to be delivered, over a specified period, upon call of the Company. The working capital usually is paid in as required. See page 6.

Creating Working Capital

The basis of contribution to the working capital by purchase of stock in the Export Company, on the part of the manufacturers desiring to join the combine, is usually that of production capacity, where that can be easily gauged. This does not necessarily mean output of the domestic plant or plants, because there may be instances where one manufacturer with a larger plant than his neighbor, by reason of domestic contracts or longtime obligations to old customers, may not have for export the same volume of product as a competitor with a somewhat smaller plant. So we speak of "production capacity" as representing the volume of product which each member of the combine is able and willing to pledge himself in written contract to deliver to the Export Company, upon specified notice, over a given time, known as an allotment period. It means surplus output in excess

of domestic demand. There need be no difficulty in deciding this, nor any need to worry about changing conditions. The allotment period may be made three months, six months, or a year, and the contracts between the individual manufacturer and the Export Company changed as time, and necessary readjustments, seem to require. Thus each member of the combine may be as conservative as he wishes in making his contract to deliver goods on call from the Export Company. The Company makes such calls according to terms incorporated in the by-laws and standard contracts, and in response to orders sent in by the selling agents covering the foreign field.

One manufacturer may testify that, in normal times, his capacity enables him to pledge ten per cent. of his output for export; another five, another fifteen, another twenty per cent., and so on down the line. (During the readjustment period, following the armistice, many manufacturers in some major industries were able and willing to pledge as high as fifty per cent. of their plant capacity for export.) The member whose pledged volume of product for overseas, to be held for the disposal of the Export Company, is greatest takes the largest amount of stock in the combination. His contribution to working capital is greater than that of any of the others because his capacity is greater. Usually, of course, the corporation whose contribution is proportionally the highest is the largest and wealthiest.

Voting Power

In a steel combination, the stock is held for five years in a voting trust, and control is determined in advance for that period. In the Textile Alliance, working capital is raised out of non-voting preferred stock, with voting control vested in common stock issued to four textile trade associations with which the participating textile merchants are affiliated. In the copper combination, also, the working capital is raised out of non-voting preferred stock, the voting control being vested in stock without par value which is alloted, one share to each participating copper producer, whose voting strength in respect to such shares without par value varies according to the amount of the copper production of such participant. In the phosphate combination, which is an incorporated association, there is no stock whatever, the control being established by a two-thirds vote of its participating members, and whose expenses are defrayed out of assessments upon the membership. In one of the lumber combinations, working capital has been raised out of stock which is assigned by the stockholders to stock trustees who vote as directed by a majority vote of the stockholders assigning such stock. In another lumber group, the working capital has been raised out of non-voting preferred stock, the control being vested in stock without par value, of which each lumber producer has one share. In another lumber group the capital stock has been subscribed for by the lumber producers in proportion to their productive capacity, but is voted upon the basis of one vote for each producer, regardless of the number of shares such limber producer owns. In still another lumber group, the working capital has been raised out of non-voting preferred stock, the control being vested in common stock which is held by the original subscribers to the preferred stock in the same proportion as their holdings of preferred stock.

This indicates that working capital may thus be raised out of capital stock, with or without par value, with or without voting power, and with or without preference as to dividends and other rights. Subscriptions for this purpose may be called for on the basis of productive capacity, or total sales, or export sales for the preceding year, or averaged over a number

of years. Voting control may attach to the stock out of which the working capital is issued, or it may be vested in stock of another class. It may be distributed according to the subscriptions for working capital, or upon a basis providing for equal voting strength to each participating member. It may be distributed according to the relative export sales, or total sales, or the respective productive capacity of the participating members as such capacity varies from year to year during the connection of the participators with the export association. It is simply a question of establishing the rights of the stockholders—invariably active participators in the combination—in accordance with their obligations to the export association. It is vital that the organization shall be so shaped that the obligations of the participating members to the export association in respect to export sales shall be binding and fortifying in every detail.

Allocation of Orders

The basis of allocation of orders is the same. This means that, based on production capacity also, the member whose investment is largest is first on the list for foreign business, in the order of precedence thus established. He has greater volume to supply and the size of his organization is such that, if he were in foreign trade for himself, he would be apt to get more business than most of his competitors in the same line.

There are, of course, exceptions to this basis of allocation. The above illustration applies in the majority of instances, but it does not serve every group of producers formed to operate through their own export company, with their own organization. The Cotton Converters, for example, are manufacturers who simply convert textile goods "from the gray", as the phrase, is into finished designs of their own creation. Their success depends upon their skill in selecting designs which meet with popular favor. They have no plants; their "gray" products are made to their order by others and so their capacity to turn out goods is practically unlimited. They could base their individual investment upon yearly sales, calculated over an average period, but allocation could not be made upon that basis for the reason that the Export Company, representing the group, will be compelled, as a matter of business acumen, to push the designs of that manufacturer whose product meets with greatest favor in the foreign market during the current season.

In this case the amount of capital required was fixed and each member of the potential combine agreed to take stock in accordance with the recommendations of a representative committee, each producer to share in the profits of the Export Company in proportion to his investment. Each converter present during the early conference stages realized that whether his own or one of his competitor's designs would be in greatest demand abroad next year or the year after was largely a matter of fortune, and so each member was taking an equal chance. But they did not wish to lose, merely because of the peculiar conditions relating to their line of business, the advantages of collective selling arrangements, of common warehouses and display rooms, uniform credit arrangements and joint advertising. A standardization committee may have to fix an assumptive margin of profit on the many different lines, in order to adjust price agreements—quite a task for a voluntary committee of business men—but the farseeing leaders in this industry are not allowing mere obstacles to deter them and they will ere long be doing business together in the foreign field.

In another instance the prospective participants in a group of manufacturers seeking to combine for export have preferred to subscribe to stock on a basis of their mercantile rating, and to allocate orders

on the same basis. This method was adopted as the result of their war experience.

It may easily occur that peculiar conditions prohibit the adoption of any plan of allocation yet worked out—though, with so many varieties developed to date, that would be very unusual. But there is always a way where there is sufficient will—and vision. The advantages of collective selling are so many that if conditions in a given industry forbid the enjoyment of all, there usually is enough attraction in those which can be procured to lead to determined coöperation.

Meeting Foreign Preferences

It must be remembered that the primary consideration in the mind of the chosen head of the Export Company is to do business, which means he *must* accommodate the foreign buyer and build up good will. How, then, it may be asked, are you going to preserve your fixed basis of proportionate allocation of orders if the foreign buyer in any one or several markets asserts a decided preference for one brand or make of goods over another, either because he has had reason to know that brand better than others, or because of his own expression of taste and judgment?

There is more than one way of solving this apparent difficulty. The solution which experience has proved to be most satisfactory is provided by price restriction on the intended product. For example, let us suppose that in a group of manufacturers of electric motors, through established connections abroad—prior to the creation of the combination—or through the immediately proclaimed preference of the foreign buyer in a given market, a demand for one particular make of motor suddenly asserts itself quite out of proportion to the volume of orders for other types of machines made by other manufacturers in the combine. So soon as the orders for this particular type of motor—which may carry a subsidiary as well as a dominant trademark—exceed the quota of business already allocated to the manufacturer of said motor, an additional cost of from 5% to 7½%, say, above the list price is added to the selling price of the article *in the market from which the orders are coming.* This may not check the insistence of the foreign buyer, because service and quality in mechanical devices, especially in Europe, are often much more powerful selling factors than price. But it is apt to decrease the sales a little, and if it does not, then the extra profits on these sales, in excess of the volume represented by the allocation due the manufacturer of the now popular motor, go into the pool and serve to compensate the other members of the combine whose allotment of foreign business may have suffered by reason of the foreign buyers' insistent demand for the specified type of motor.

What can be fairer than this? It must be remembered that the manufacturer of this motor has already pledged for export, *all* surplus output above estimated domestic demand and that he has already benefited through the promotive efforts of the collective selling organization. He could not, under any circumstances, arrange immediately for a large increased output, whereas the automatic cost-check afforded by the increase in price does afford him time to extend his plant facilities, if he wishes, during the period until a new allotment when a readjustment of allocations can be made. As the other members of the combine are all sharing proportionally in the profits of the Export Company, all they suffer is the loss of whatever differences there might be in orders, to keep their plants going at higher capacity if the prearranged allotment of business had come to them in normal rotation. In one case, the manufacturer whose motor found greatest foreign favor would have gotten

$10,	
$2,250,000	DEUTSC BAN
$4260,000	AG FUR EL ANLAGEN
$20,850,000	GESELLSCHA TRISCHE BEL VON JAHRE 18
$31,000,000	SIEMENS-HALSK
$21,325,000	MANNESMANNROHREN WERKE
$22000,000	UNGARISCHE LOKALEISEN BAHNEN
$5,000,000	TEMPELHOFER FELD AG GRUNDLUCKSVERWERTU
$22,500,000	BERGMANN ELEKTR ATS WERKE AG
$36000,000	SELLSCHAFT FUR ISCHE HOCH UND TEGRUNDBAHNE
$4,600,000	GEMEINE BE NIBUS AG
$2500,000	DE SCHE OST IS E GESELL
$9,000,000	OS RIKANIS BA GESEL
$14250,000	BET S GES DER ENTAL EISE AHN
$17000,000	SCHA UNG E GESE CHA
$4856,000	BRAUN LEN INDUS E
$800,000	J.D. RIE BERLIN BR
$1,536,000	DÜR K
$1,215,000	LUBECK BAU GE
$20,000,000	ORENST ARTHUR
$1,900,000	SCHUBER MASCHIN
$2,560,000	HIRSCH KU MESSINGW
$3,000,000	STEFFENS
	BERLIN FABR

CONNECTIONS OF THE DEUTSCHE BANK OF BERLIN THROUGH EXECUTIVES AND MEMBERS
ARRANGED IN ACCORDANCE WITH SIMILAR DIAGRAMS OF O.C. MERRILL

DATA FROM SALINGS - BORSEN - JAHRBUCH 1914 - 1915

all the business he expected—and more—and in the other, his associates in the combine would be in a better position than if each had been selling alone and shared in none of the profits of his associates' prosperity.

Freedom to Promote Individual Sales

If any member of the combine making a product which is competitive as to trademark as well as in price and quality advantage, feels that he is not getting all the business that might be secured if he were pushing his own goods abroad exclusively with his own representatives, he is, or should be, always at liberty to send his own representative into the foreign field to promote business for his particular product, provided that it is understood that all orders received through any agencies whatsoever are faithfully reported to and cleared through the pool. Proper penalties, in the by-laws and contracts, can be provided should there be any infractions of this rule.

Any manufacturer who does send his own salesmen abroad is, of course, adding to his individual selling expense, but we are assuming that he does this deliberately because of his belief that it will pay him, knowing that the combination offers him other economies already mentioned.

In one important group, a large producer who believed he had established considerable goodwill abroad by the development of his own export organization, felt that not a little popularity had been created for his particular grade of product, and said that he was held by contracts with certain foreign distributing agencies for several years ahead. At first he was very much averse to throwing in his lot with others who had no such already acquired assets in the foreign field. Ultimately this producer came to see that there were other advantages to be procured by collective selling which outweighed those to which he had given initial thought, and he concluded by agreeing to pay a small commission into the pool for the privilege of continuing his individual contracts during their present life, and for the insurance against competition from others who appeared to be willing to go ahead without his coöperation, if necessary.

In the case of two other groups, each producing staple products, their plan provides that the individual members of the Export Company shall supply the combine with such percentage of the producer's capacity "as the Board of Directors may determine".

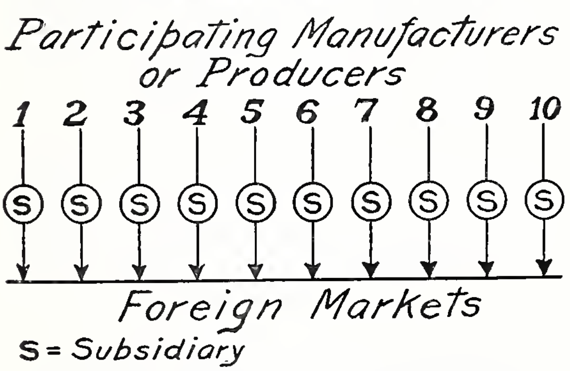
It is provided that:

"All sales of the producer's (product here specified) in or for export trade, excepting, however, sales under contracts now existing, shall be made exclusively through the Company (combine). Such sales shall be permitted through other channels, however, if made at prices and on terms previously approved by the Company, and if immediately reported to the Company, and if packed and shipped under the producer's own label, or distributor's label, as heretofore reported to Company, and if the manufacturer shall pay to the Company upon its demand, such sum per...... as the Board of Directors of the Company from time to time shall determine—not exceeding, however, five cents (5c) per....... The Company shall maintain in New York City and elsewhere such offices, yards, agencies, representatives, and business connections as in its opinion shall best promote export trade in......, and so far as practicable shall apportion its orders between the producers and all others having agreements with the Company identical herewith and then in force in proportion to their respective producing capacities determined as aforesaid. The producers shall execute each order so apportioned and shall pack, label,

mark, and ship all......so ordered in accordance with specifications and directions furnished by the Company. With each such shipment, the manufacturer shall furnish to the Company, in such form as the Company shall prescribe, invoices, bills of lading and certificates of inspection signed by an inspector furnished by the Company, which certificates shall be final on all questions regarding quality, weight, quantity, package, and marking of such shipment. All losses and charges in respect to such..... incurred subsequent to such shipment, shall be borne by the Company.

"When ordering......from the producer, the Company shall designate the price f.o.b. mill, at which the producer shall sell such......to the Company. For......furnished upon such order, the manufacturer shall accept in full payment, and the Company shall pay three-fourths of such price within thirty days after date of shipment from mill, and one-quarter within ninety days after date of shipment from mill, or shall pay in such manner as shall be agreed upon by the parties hereto. The Company may sell such ......in export trade at any price it chooses, and may retain to its own use the entire proceeds thereof".

WEBB COMBINATION NO. 2



In this form of combination each member, or participating manufacturer or producer, wishing to continue to do business individually with foreign customers, forms a subsidiary company *for export business only*. The subsidiaries may create a Webb Association and have working agreements as to prices, terms of credit, allocation of territories, etc., but each subsidiary company uses it's own individual selling and distributing agencies for the promotion of its own business See pages 12 and 13.

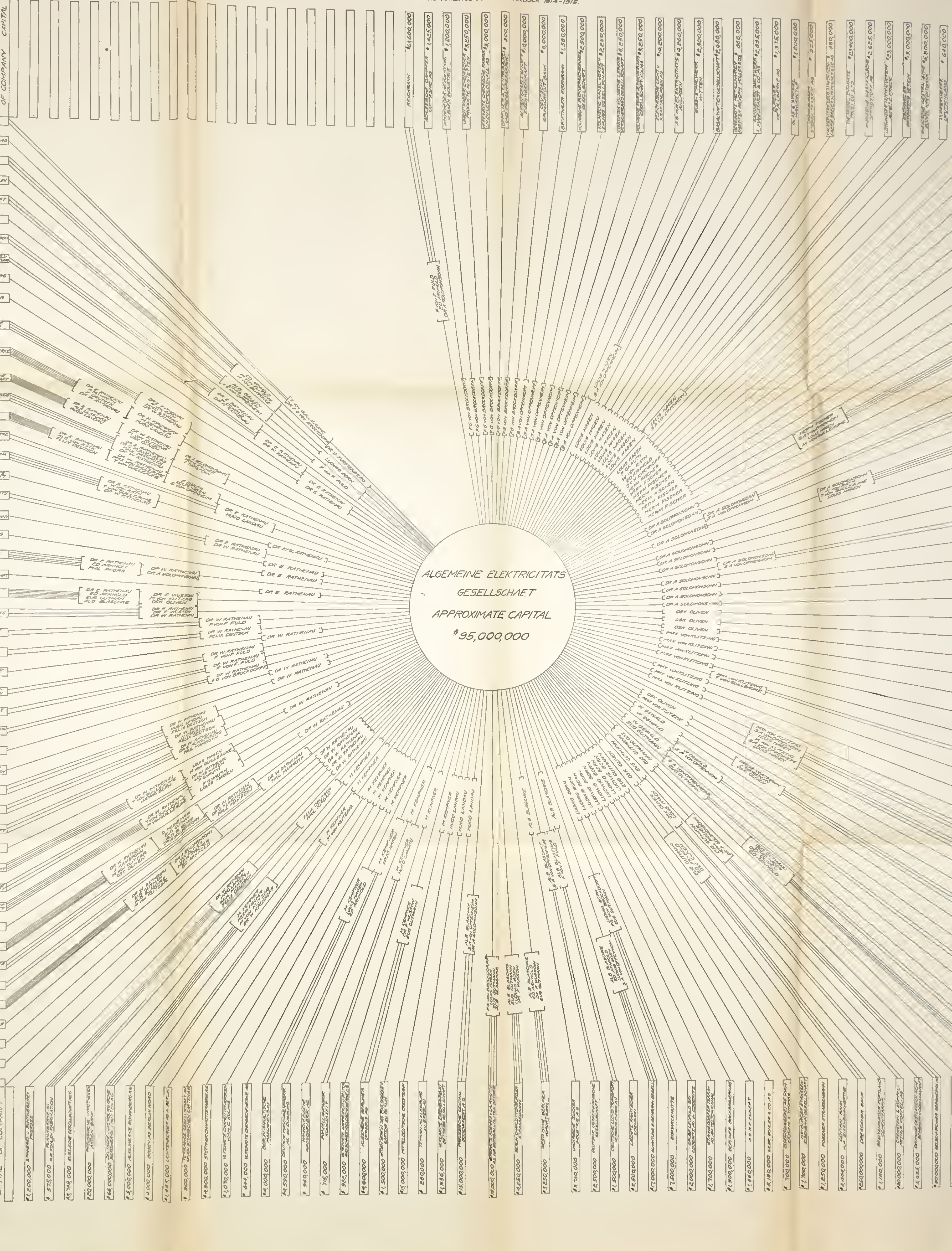
These provisions are quoted as serving to show how simple the contract between the individual participant and the combine may be. Each of the groups referred to—in fact all of the groups dealing in staple products—have provided very rigid machinery for the insurance of the quality and standard of products which the individual producer may furnish for export. It is realized that the utmost must be done to protect the foreign market against despoiling by unwise and shortsighted individuals who might seek to get rid of inferior products on the other side of the water.

In what is termed No. 2 plan, each one of a number of manufacturers creates a subsidiary *for export business only*, and the subsidiaries form a trade association and register for operation under the Webb-Pomerene Law, without a central selling agency or stock company of any kind. The executive staff of the trade association makes trade and credit investigations, and supplies the information to the members of the trade association, the members supplying the operating expenses by paying dues or submitting to proportionate annual assessments based upon their yearly sales. The subsidiaries may have "gentlemen's agreements" as to prices, terms of credit, allocation of territories, etc., but each subsidiary company uses its own individual selling and distributing agencies for the promotion of its own business. The members of the trade association need not have any agreement as to prices if they allocate respective foreign territories and agree not to sell in one another's domain. Likewise, if they do not allocate territories but agree upon a free field, then they may have agreements as to prices, terms of credit, common warehouse facilities, etc.

CONNECTIONS OF THE ALGEMEINE ELEKTRICITATS GESELLSCHAFT OF BERLIN THROUGH EXECUTIVES AND MEMBERS OF ITS BOARD.

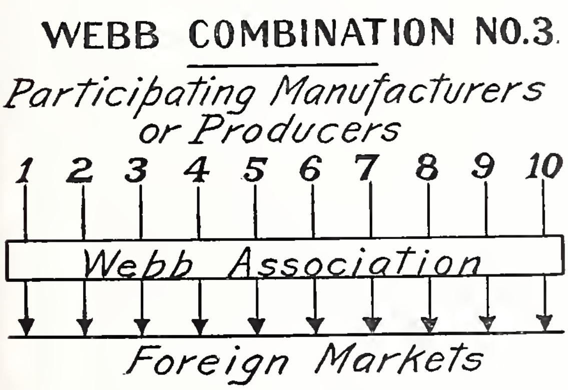
ARRANGED IN ACCORDANCE WITH SIMILAR DIAGRAMS OF O.C. MERRILL

DATA FROM SALINGS BORSEN JAHRBUCK 1914–1915.



Tentative Organizations

Manufacturers in one or two industries who have no definite statistics and positive information as to the extent of the potential market abroad, whose aggregate domestic supply already equals domestic demand, and who believe that a demand for their American product *may be created* in the foreign field—have organized tentative associations (Plan No. 3) to conduct investigations in advance of attempts to do any business on a coöperative plan or scheme. They have assessed themselves on a basis proportionate to their mercantile rating, or yearly sales, and have thus supplied funds wherewith to send properly-equipped men abroad—men who understand their products—with instructions to furnish definite information as to the possibilities of developing business in their lines in markets where freight rates enable them to compete permanently with the foreigner.



In No. 3 ,a Webb Association is formed as a tentative arrangement, for purposes of market research and investigation, in advance of subsequent business operations should reports justify development. This plan is recommended for groups of producers or manufacturers who are not sure of the extent of the existing demand in any given market or who believe that a permanent demand for their product may be created by promotive effort. It may also be used by manufacturers who wish to combine for purposes of economy in warehousing, display rooms, advertising, etc., while each retains individual selling agencies and competes for business in foreign markets.

This is an intelligent way of approaching the problem. It does not cost a large amount of money to procure such specific information and it is worth all it costs to have it.

Foreign Combinations

Combinations in trade have been in existence in Europe for many years. The report of the Federal Trade Commission for 1916 furnished elaborate details concerning the activities of these syndicates and cartels, formed by European buyers as well as exporters. In Germany, Italy, Switzerland, Holland, Sweden, Belgium, Japan, and certain other countries where national policies concerning industrial combinations contrast with those of the United States, business men have been much freer to coöperate and combine than in this counrry. They have developed numerous comprehensive combinations, sometimes aided by their Governments, which effectually unite their activities both in domestic and foreign trade. In England and Central Europe though freedom to combine is considerably abridged under the law, important combinations have also been formed.

In Germany prior to the war there were 600 important cartels, i. e., combinations to control the market, embracing practically every industry in the Empire. Many dominated the export trade of their industries and carried on vigorous campaigns to extend their foreign business, to prevent competition among German producers in foreign markets, and to secure profitable prices. Thus the German dye industry operated as a unit in foreign trade under the leadership of two great groups of allied producers, the Badische group and the Hachst-Cassella, which were working under a fifty-year agreement to avoid competition with each other. The manufacture and exportation of electrical equipment was made one of

the bulkwarks of German foreign trade by two great companies, the Allgemeine Elektricitats-Gesellschaft and the Siemens-Schuckert, working in harmony with each other, with numerous subsidiaries at home and abroad. Half of the $150,000,000 worth of coal and coke exported annually was sold by one central selling agency, maintained by the great Rheinisch-Westfalische coal syndicate, of which some of the Prussian Government mines were members, and which controlled the bulk of all the coal and coke produced in the Empire. Practically all the rapidly-increasing iron and steel export business was handled respectively by the single selling agencies of the Roheisen-Verband and the Stahlwerks-Verband, the aggressive and closely connected unions of German iron and steel manufacturers. The coal and iron and steel combinations have fostered foreign business through export bounties and other means.

In France and Belgium, syndicates of iron and steel, glass, and other industries were strong factors in domestic and foreign trade. Silk ribbon manufacturers of France and Germany conducted their export trade in accordance with a joint agreement. In Italy, Russia, former Austria-Hungary, Switzerland, Sweden, Greece, Argentina, Chile and Ecuador, central organizations unite the interests of producers in the industries characteristic of those countries, such as coal, iron and steel, agricultural machinery, oil, sulphur, superphosphates, cement, matches, chocolate, embroidery, silk goods, watches, cotton goods, condensed milk, canned fish, currants, quebracho, iodine, cacao, etc.

In Japan an export organization of textile manufacturers has developed an extensive cotton goods trade of North China. The trade in tea is controlled by a nationwide "tea council". One great Japanese firm, which in itself combines manufacturing, mining, shipping, and merchandising enterprises, has been rapidly extending Japanese trade in all lines throughout the Far East, and the Japanese Government is directly assisting the development of shipping, banking, and trading for foreign business.

The long established trade in British products in many markets of the world, due to their pioneer position, the excellent representation afforded by British export houses, and the advantage of British shipping and banking facilities, has enabled their manufacturers to hold foreign markets in many lines without such a large degree of combination as characterizes German industry. But in various important industries combinations have grown up. Thus most of the great coal export business is done by powerful organizations, combining mine operators, marketing companies, coal shipping lines, and foreign distributing companies. This gave British coal its grip on the important South American market. British cement manufacturers united in a strong and successful union for the extension of their overseas trade. In 1915, a number of large British manufacturers of machinery of all sorts formed the Representation for British Manufacturers (Ltd.), an organization to handle their business in certain important foreign markets and to carry on an aggressive campaign for its extension. Similiar organizations for foreign trade are in progress of formation among other British manufacturers. In the electrical, cotton-textile, pottery, tobacco, wall-paper, iron and steel, and various other industries strong associations and combinations are important factors in foreign and domestic business.

It is against such organizations as these, uniting powerful groups of foreign concerns, backed by great banks, aided by railway and ship lines, and assisted by foreign governments that hundreds of comparatively small American manufacturers and producers have had to com-

(Great Britain)

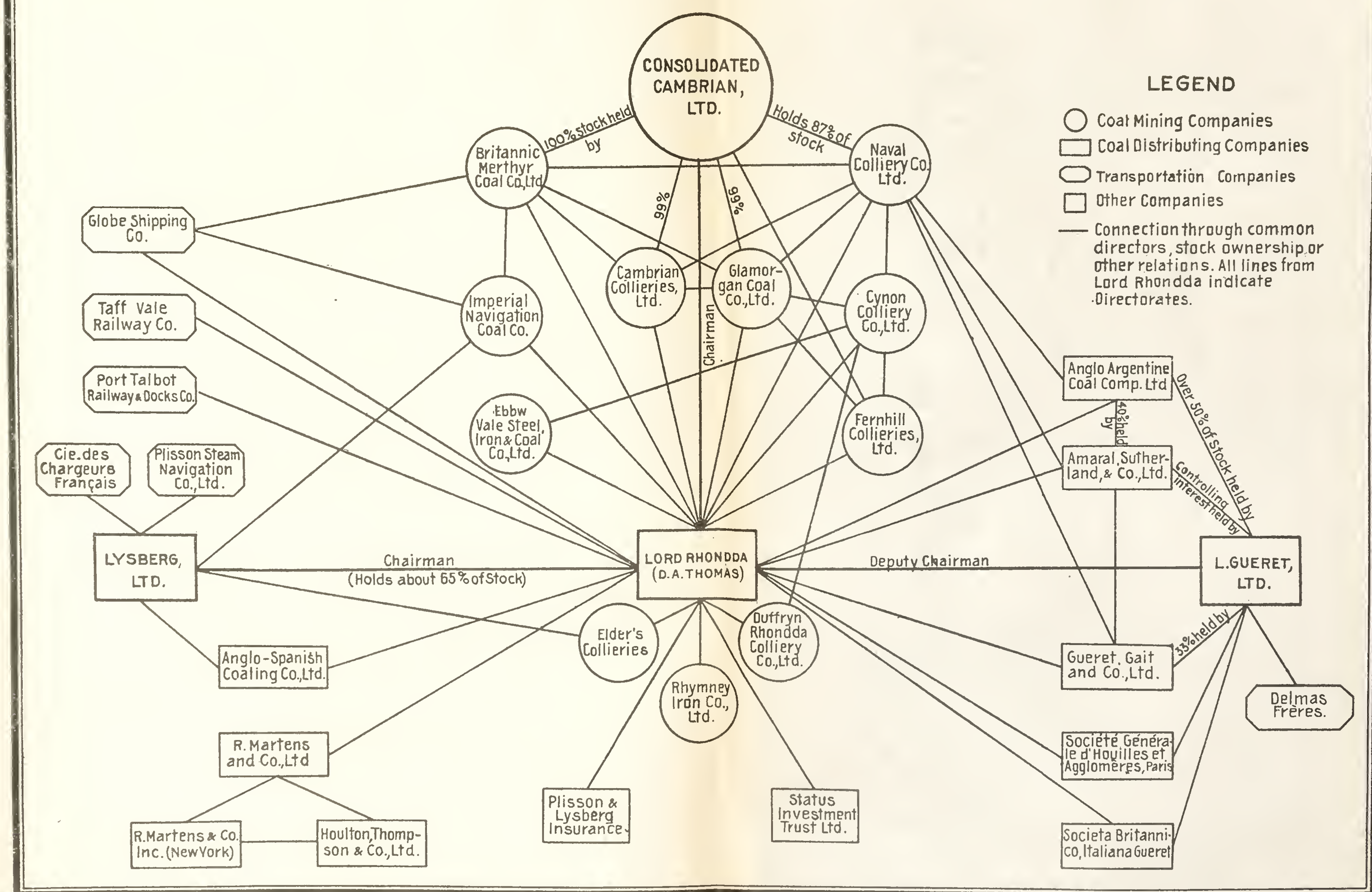


CHART 3

WEBB & BOCORSELSKI, INC., WASHINGTON D. C.

pete in export trade. Moreover, in some industries such manufacturers have also competed abroad with great American companies having most efficient world-wide selling organizations.

In various manufacturing industries, higher manufacturing costs and comparative inexperience in export trade make it extremely difficult at best for Americans to compete with foreigners for trade abroad. Therefore, meeting severe competition from powerful foreign combinations, and through dependence on foreign cable and telegraph companies, foreign banks and ships, forced to risk exposure of the secrets of their overseas business to their foreign competitors and to risk effective discrimination against their trade, American manufacturers, and especially the smaller producers, have been at a decisive disadvantage in export trade.

Foreign Buying Combinations Which Have Depressed American Export Prices

In various markets American manufacturers and producers must deal with highly effective combinations of foreign buyers. Thus, exporters of lumber find such combinations in Australia and on the continent of Europe. Cottonseed products are handled by combinations of buyers in Holland, Denmark, and Germany; and Austrian cotton-textile manufacturers have a buying combination to import their raw cotton. The Coöperative Wholesale Society (Ltd.), an astonishingly comprehensive wholesale buying organization maintained by 1,400 coöperative societies in Great Britain, has one buyer in New York who annually purchases millions of dollars' worth of American products. Four London firms, known as the Fixing Board, daily set the price of silver for the world until March, 1919, and American mining companies had to sell their silver for either the English or the great Indian market to one of these four houses. For years the copper trade of the world was ruled by a vast German metal-buying organization centering in the Metallbank und Metallurgische Gesellschaft, (A. G.) of Frankfort-on-the-Main. This combination had subsidiary and affiliated companies in Germany, England, France, Spain, Switzerland, Belgium, Africa, and Australia, controlled copper and lead mines and smelters in the United States, Mexico, and other countries, and worked in agreement with other German metal-buying concerns.

These combinations naturally made individual American producers bid against each other, and were able to buy at comparatively low prices. According to the president of one of the largest American copper companies, the German metal-buying combinations, by such tactics as these and by the manipulation of the foreign future markets, bought millions of tons of American copper at prices averaging, over a series of years, nearly a cent a pound below the prices paid by American consumers. This condition has changed, since American producers, now combined, control about 80% of the world's supply of copper.

Those who attended the International Trade Conference in Atlantic City in October, 1919, must have learned, through the foreign representatives, of the tendency to develop large buying syndicates in Europe. It is obvious that the only way in which to meet collective buying effectively is by collective selling.

Diagrams facing pages 10, 12 and 14—for the use of which we are indebted to the Federal Trade Commission and to the General Electric Company of New York—will afford an idea of the extent of some of the European syndicates and selling combinations against which American manufacturers have had to compete—and will have to compete again when normal conditions return.